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The Espionage Boom

How serious is foreign industrial espionage in the United States? Serious enough, NEWSWEEK has learned, for the Central Intelligence Agency to place at least one agent in California's Silicon Valley to keep tabs on foreign agents. And while the major emphasis has been on the theft or loss of secrets to the Soviet Union and its Eastern-bloc allies, last week's IBM case demonstrated what many West Coast electronics experts have believed for years: the Japanese—U.S. friends—are just as big a threat as the Soviet adversary. "It's a little bit like Pearl Harbor," says Gene B. Potter, chairman of Silicon Systems, Inc., in southern California. "A lot of people are hearing the signals and not doing anything about it. How would you feel if you were sitting up there shouting, 'Here come the planes!' and nobody was listening?"

In fact the authorities *are* listening. Early this year the Reagan Administration established an inter-agency working group consisting of the FBI, the intelligence agencies and several Cabinet departments to deal with the problem. Today there are nearly 50 technology-theft investigations under way across the country—half of them described as "major." And U.S. agents are doing more than just investigating. With the cooperation of friendly foreign governments, officials have begun intercepting and tampering with illegally exported electronic parts that are en route to Eastern-bloc countries. The object of the exercise: to sabotage the equipment. "It could be six to twelve months before they discover what a screwed-up mess they really have," says one U.S. agent.

Ron Burda—San Jose Mercury News

U.S. agents with stolen chips: A lucrative 'gray' market

Nowhere is the espionage problem more acute than in Silicon Valley. According to Douglas K. Southard, a deputy district attorney in Santa Clara County, "In the past five years probably $100 million or more in electronic technology and products has been stolen in the Santa Clara County area alone." Many companies refuse to publicly discuss thefts or report them to authorities, so Southard's figure may represent only the tip of the problem; the head security officer of one Bay Area electronics firm says his company loses about $5 million a year in the United States—and as much as 25 percent of its total production overseas, where some products are assembled because of lower wage rates.

The concentration of electronics firms has drawn some of the best foreign technology sleuths to Silicon Valley. The Soviet Consulate in San Francisco is headed by Aleksandr Chikvaidze, a trained engineer who formerly served as chairman of the Soviet Union's Committee on Science and Technology. He directs a cadre of KGB agents—as many as 60, some experts say—who monitor the territory for public as well as confidential information. There is an even bigger Japanese presence. "We have eight or nine offices in the States, including one in San Francisco," says one top executive at a major Tokyo trading company, "and a big part of their job is to be aware of future developments in the electronics industry." All of Japan's major computer makers have liaison offices in the area; although most experts believe most of their work is entirely legitimate, American competitors have always been suspicious of the speed with which Japanese manufacturers seem to match U.S. breakthroughs.

Middlemen: The Soviets and Japanese couldn't get very far, however, without the help of willing middlemen like the National Semiconductor Corp. employee arrested last week for allegedly procuring IBM documents illegally. According to government investigators, one Singapore-born consultant, Peter Gopal, met several times with Russian agents in 1977 both in the United States and abroad and agreed to sell trade secrets from Intel, National Semiconductor and Zilog corporations. He was arrested in 1978 when he tried to sell an Intel memory-chip design—used in video games as well as intercontinental ballistic missiles—to an undercover agent.

The Commerce Department has tried to regulate the export of strategic electronics parts, but its efforts have proven largely ineffective. As a result, most companies employ their own security agents, usually former police or FBI investigators, to tighten security and catch high-tech thieves. But as the IBM case made clear last week, private-detective work still is no substitute for the long arm of the law.

TOM NICHOLSON with RICHARD SANDZA in San Francisco and bureau reports